



## McCullough Research

6123 S.E. Reed College Place  
Portland, Oregon 97202

Voice: 503-771-5090  
Fax: 503-771-7695  
Internet: robert@mresearch.com

### MEMORANDUM

Date: June 8, 2002  
To: McCullough Research Clients  
From: Robert McCullough  
Subject: PGE's May 22, 2002 Affidavit

On the 22nd of May PGE responded to FERC's questions with 637 pages of materials. Most careful readers will find their response very disappointing. Overall, the response pleads ignorance of the market implications of their actions. The tone of profound ignorance is not likely to be credible. In their defense, Enron's decision to put the utility up for sale has probably reduced their ability to hire and retain skilled personnel. Even given this, the documents describe a utility operating at the bare edge of everyday competence.

The 637 pages break into several large blocks:

1. Affidavit and supporting language (38 pages)
2. Assorted documents (152 pages)
3. Transactions from April through June of 2000 (44 pages)
4. Trader transcripts (404 pages.)

The first question that comes to everyone's mind is: Is PGE guilty of collaborating with Enron in its market manipulations?

The answer is yes, but this is less encompassing than it may seem. PGE clearly facilitated Enron's activities. Equally clearly, PGE's involvement most likely goes beyond the days specified in the PGE affidavit. We know this since we have PGE involvement implied in the materials distributed from California State Senator Dunn for days well past those cited in PGE's response.

PGE's actions are surprisingly well documented within its own filing. On the first page of the trader transcripts, the following dialog between Terry Findley of PGE and an Avista trader includes:

PGE: Do you know anything about an account that we need to talk about, for 25 megawatts, for hour ending 10?  
WWP: Well, umm . . . yeah . . . what it is, is that I guess we are going to do a sleeve, but with Enron.  
PGE: A what?  
WWP: A sleeve.  
PGE: I've never heard of that term.  
WWP: Okay. Well; basically it's a buy and resale .  
PGE: Okay.  
WWP: Umm. .. they didn't call you on it? I guess they can't, huh. Okay, what they, what it is, is I'm going to buy, here's the path, 25 megawatts of generating at the ISO.  
PGE: Correct.  
WWP: It's going to Enron, then to me, then to you, at Malin, then I'm picking it back up from you at Malin, and it's going back to Enron.  
PGE: Okay, Enron, to Water Power, to me . . .  
WWP: Then back to me . . .  
PGE: Now this is one account.  
WWP: Right.<sup>1</sup>

At another point Judy Madsen of PGE has a conversation with Avista:

PGE: Oh, I didn't know I was buying anything, because nobody has said anything to me about prices or anything .  
WWP: Okay, what it is . . .  
PGE: My understanding was it was strictly a transmission transaction.  
WWP: Maybe you better talk to Enron because he said that I'm sleeving it just because you can't buy it. They can't sell it to you. And I don't know what the deal is cause I told him well, [expletive], I don't have transmission if I have to buy -the transmission then I gotta go buy it for 16 sell it for 19. And I don't know if you really want to do that.  
PGE: Yeah, I don't know that I want to be in the middle of that.<sup>2</sup>

In repeated filings at FERC, PGE's lawyers stated that "The restrictions listed above will be discussed in training sessions with each affected employee and prominently posted in the appropriate areas of operation."<sup>3</sup> Clearly, this conversation must have raised the question why a sleeve – a common industry term meaning the relabeling of a transaction for credit or regulatory reasons – would have

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<sup>1</sup>Transcript of Scheduler Telephone Conversation, 04/06/00 (no time).

<sup>2</sup>Transcripts of Portland Scheduling Calls, 04/15/00, 10:26.

<sup>3</sup>Amended Notification of Changed Facts, Samuel Behrends and Andrea J. Chambers, August 21, 1998.

been required. If Terry Findley or Judy Madsen had read the PGE Code of Conduct, it would have been obvious that this would allow PGE and Enron to circumvent the FERC tariff and avoid reporting requirements at FERC and the Oregon PUC.

PGE's clear participation in Deathstar (and Forney's Perpetual Loop and Cong Catcher) is only part of the answer.

Did PGE know that they were participating in a fraud designed, in part, to injure their own market position? Nothing in the documents provided so far show even the remotest understanding of the markets they were active in. Taken at face value, the operator logs, the memoranda concerning California markets, and the handwritten memo summarizing interview of Kevin Nordt, show an amazing lack of knowledge of and curiosity about the market environment they were operating in.

The attached materials are generally of little importance. There are some materials that would seem to simply have been added to "bulk out" the response – eighty nine pages of Phoenix Consulting's minutes of ISO board meetings were not felt worthy of inclusion by any of the other parties filing affidavits.

The most important documents in the package are the unattributed handwritten notes of interviews with Kevin Nordt, Marlene Hunsiker, and Bill Casey. Since the author's handwriting is close to illegible, my reconstruction is attached. The second most important document is the April 12, 2000 exchange between Kevin Nordt and Joseph Taylor that identifies some of the same issues with transmission availability that I have been flagging. This has been attached as well.

Attachments:

Reconstructed interviews with Nordt, Hunsiker, and Casey

Taylor/Nordt Memos

Kevin Nordt 3/1/02

late 1997 - after merger during trading floor transition

- Casey, Sean others "last to leave"

native load

said sent out of Enron

- Kevin charged with starting with Cal

- Kevin "loaned in" Enron to learn about Cal. market

- no talk of "why don't you do this or that?", but *would* and Time Belden and others about new "games" found in ISO.

- bidding, potential change to tariff, and other subjects

- went on until market started breaing down in 2000

Mary Hain

*ad* given

SC training

- Tim, Sean Crandall, Bob Bedien

- sharing of info even

- J - 10 conversation, generally

at a time of tariff changes, e.g.

changes in target price methodologies

- when ISO/PX just started (spring '98?)'

BPA had swapped scheduling system

- BPA couldn't control area

*don* check - cuts

- Kevin worked 4:30 AM - midnight

7 days a week

- everyone got mad, especially with PX
- vented about "won't bid anymore"
  - never followed through
  - bids not recorded -- cell phone or home phone

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back to 1 -

- never agreement to work together
- talk to non-Enron traders at stakeholder meetings,  
e.g. Idaho Power trader

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games

- phantom congestion
  - applied to intertie (AC line) at COB
- we could forecast Cal util's load
- ISO would show TX was full, but Cal munis  
part would be free
- Kevin wrote *the eastern* bids

- Random bubbler
  - ISO used this to pick who among all lowest bidders over COI would get picked
- Kevin built simulated random bubbler to see how it worked
- San Diego had part of Boardman, so they got hammered by neg bidding
- Seattle City had disallowed neg bidding, so they were out of the market

3/4/02

Marlene

- Enron was going to schedule at a weak tie Silver Tie?
- Nevada deal that Kevin told me about in which Enron got fined
- Marlene thinks Enron wanted us to help schedule
- ask Bill about Enron scheduling request

- parking and lending tariffs
- "stored" power 24 hours in advance
- schedule imbalance at COB would be similar to Enron scheduling request
- maybe number of Enron Tx
- *relocation* because Enron took WPPSS 3
- (1) power sales from PGE to WAPA
  - Enron took that sale over
- (2) supply for it was with WPPSS contract.
  - which was BPA product that could only be delivered to PGE
- for both park deal and Tx . *relocation,*

*... it became more apparent*

- Enron wanted us to buy at COB from them
- They would cut, creating  
TX situation -- we *refused (small)*
- scheduling service for Enron (is this  
megawatt laundering?)
- we're taking title at both ends
- we'd do for anyone, but  
Enron locations often  
didn't make sense for anyone else
- trading in forward block would allow you to play PX against ISO  
1 time - Avista stepped in on weekend when we couldn't post
- one time when Enron figured out an ISO tariff twist that they  
shared with us - Bill doesn't remember if we took advantage of it
- occasional scheduling times, we wound up supplying gen to  
Enron and discovered a month after the fact
- went back and charged them index + \$3



**From:** Kevin Nordt  
**To:** Joseph Taylor  
**Date:** Thu, Apr 13, 2000 7:11 AM  
**Subject:** Explanation of HA Cong vs realtime incs

Joe

I spoke with Ziad today about the phenomena we saw over the last few days. Basically, the ECRs: existing contract rights (the difference between physical limit - new firm use amount) is the culprit not extreme error in the power flow studies.

Currently, the ISO must assume that the existing contract rights are fully utilized in both the DA & HA markets. This has the potential to create psuedo-congestion (and at absolute best can only be neutral for the market but more likely to be negative) because these rights (~1500 MW) may be completely unscheduled and there may not even be the slightest expectation that this capacity will be scheduled on either but the ISO must reserve this ECR capacity until the scheduling rights associated with these rights expire (much closer to realtime). Therefore, in the HA market, if 1500 MW of ATC from JDA to COB exists, the ISO after reserving for existing contract rights could show an HA ETC of 0 MW. This would result in extreme congestion even though there is not even 1 MW of power scheduled on the 1500 ECRs reserved. Our HA energy bid would almost certainly get conged out. Then, as the ECRs expire at ~40 minutes prior to the dispatch hour, the ISO can pick up on this space. If inc bids for supp energy exist on the COI and the merit order of these bids is right, the ISO should and would pick up as much supp energy as it needs on the "newly" available 1500 MW of COI space.

This is just another manifestation of the mismatched pipe issue we have discussed before with respect to the day ahead market. I apologize that it did not dawn on me earlier to see that this was what must be happening (focussing on power flow study led me to not see the forest for the trees).

As we may soon find out in the NW if RTO picks up again, working for the best economic solution around a hodge podge of existing rights and non-jurisdictional parties can create some perverse results. The ISO recognizes the economic inefficiencies resulting from this but legally there is nothing that can be done. However, there is a proposal being put forward in the cong redesign process that would use "non-firm recallable" ATC to set the limits on ATC for HA market. This would have helped us over the last few days because HA capacity would have been higher and with no realtime ECR schedules, we would not have been bumped (non-firm bumping something we already live with elsewhere, so it is tolerable if not optimal). The big question is whether the munis et al will agree to it (they are small but powerful, can not be forced under ISOs thumb).

Hope this at least answers the questions you had even if you do not like the answer. We will track on cong redesign efforts and comment to the extent we can to at least get our 2 cents in the mix.

**CC:** Bill Casey

**From:** Joseph TAYLOR  
**To:** "jniickel@caiso.com"@WIZ.IXGate  
**Date:** Wed, Apr 12, 2000 6:13 PM  
**Subject:** April 11th Hour Ahead Congestion

Attached is a spreadsheet containing most of the pertinent info. Bottom line is that congestion was managed by cutting not more than about 100 MW's of Hour Ahead Schedules and then the ISO picking up in some hours 700 MW's in the supplemental market on the supposedly congested line. We have the same situation again today. Is it the intent of the ISO to kill the CPX HA market and only utilize the supplemental market? I find it hard to believe ETC's to the tune of 700 MW's aren't released until they might only be used in the supplemental market. Do we have a case of market abuse/manipulation here? I look forward to your response.